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THE INTELLIGENCE REQUIREMENTS FOR ECONOMIC WARFARE

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THE INTELLIGENCE REQUIREMENTS FOR ECONOMIC WARFARE

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SUMMARY

"Economic Warfare" is used here to refer to all those measures which seek the attrition of the economic potential for war of an enemy or probable enemy. This definition, however, may be broadened to include *to allies and other free nations.* foreign economic assistance. While economic assistance and economic attrition are obviously diametrically opposite operations, they may be handled by separate bureaus in a single superagency as was done finally in World War II. In any event a single Office of Economic Intelligence could support both operations. *Spent
to
for*

Most, if not all, of the measures of economic warfare may be executed by existing agencies of the government.

In the transition from peace to war, marked changes are noted in the requirements for economic intelligence, in the sources, in the methods of processing, in the nature of the product, and in the intelligence organization.

in the same Earlier assumptions as to the relative invulnerability of the Soviet bloc to economic warfare are now subject to review. These earlier assumptions were in turn based on the assumption (1) that the Soviet bloc was relatively self-sufficient and (2) that in any future war there would be few if any neutral areas. Both of these assumptions may now be challenged. Economic warfare has an important role in the cold war and may be expected to be an important, perhaps decisive factor in any future war. *but*

In World War II Great Britain early assumed leadership in economic warfare operations. *- repeat as -* There is no indication that this will be the case in the present struggle. The major responsibility has shifted to the US.

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by existing agencies of the government.

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Add to 3rd para of Summary

Basic, strategic intelligence for policy-making and planning is needed
more than ever but in addition there are requirements for a vastly greater
volume of current, tactical, and spot intelligence, properly evaluated
and immediately transmitted to the using agencies.

RECOMMENDATIONS

It is recommended

1. That interagency surveys be made of the ~~requirements and~~ ^{economic intelligence and facilities} facilities for each foreign economic operation. ~~and facilities~~
2. That interagency surveys be made of the present facilities for the exploitation of each source of economic intelligence and the facilities required in the event of war.
3. That, to avoid duplication and to provide a greater utilization of existing intelligence facilities, each of the IAC agencies and certain selected non-IAC agencies arrange, for the benefit of other agencies, a series of presentations ^{describing in detail} of their facilities for the collection or production of economic intelligence.
4. That economic warfare intelligence manuals be prepared for the use of (a) reporting officers (b) censors (c) interrogating officers.
5. That an Office of Economic Intelligence be established within CIA which could furnish the nucleus for an Economic Warfare Administration or Foreign Economic Administration.

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8 September 1950

THE INTELLIGENCE REQUIREMENTS FOR ECONOMIC WARFARE

THE PROBLEM:

To determine the intelligence support required for economic warfare and the type of economic intelligence organization best suited thereto.

I: INTRODUCTION

A. Definitions. "Economic Warfare", as the term is used in this paper, is intended to include "the use of economic, military, diplomatic, or other measures to injure an enemy's economic support of his war effort or a possible enemy's economic potential for war. It includes such measures as shipping controls (ship warrants and navicerts), naval interception, export controls, import controls, proclaimed listing, preclusive buying, financial pressures, war trade agreements with neutral nations, alien property control, foreign funds control, foreign exchange control, and military attack on economic targets."1/

In this meaning, economic warfare includes all measures which seek to effect the strangulation or attrition of an enemy's economy, or to limit the economic potential for war of a probable enemy, although the latter measures are more strictly called economic sanctions.)

n. ① Economic warfare is thus defined in the light of its objectives rather than of the means employed. The term was first adopted by the British in the period between World Wars I and II.

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If economic assistance to our allies and friends and the economic attrition of our enemies are both to be considered parts of economic warfare or of our foreign economic operations and included in one or another organization (and such an plan, admittedly, has certain advantages), then it would be necessary, as it was in the case of FEA, to have separate offices or bureaus handling the two distinctive operations. But in any event, the economic intelligence requirements would largely be the same. To accomplish either assistance or attrition, it is necessary to have economic intelligence as to all areas and all commodities. For this reason, while the emphasis in this study of requirements is on economic warfare as the attrition of our enemies, the proposed plan of organization, described in Part V, envisions an Office of Economic Intelligence that would support both operations.

Economic warfare became the substitute for and enlargement of their blockade operations in the first war. Their Ministry of Blockade in the first war became the Ministry of Economic Warfare in the second. Economic warfare thus became synonymous with the figurative meaning of blockade.

"Economic Warfare" is sometimes used to include all measures for the economic mobilization of a nation, including procurement, production, foreign economic assistance, and all the economic aspects of war. The objection to this popular or rhetorical use of the term is that it is so broad as to have no specific application, and leaves us without a term for a very important and specific aspect of the war effort, namely, the interdiction of an enemy's foreign trade and the attrition of his economy.

"Economic warfare intelligence", as the term is used herein, may be defined as the product of the analysis, synthesis, interpretation, and evaluation of information and intelligence in support of and application to economic warfare. It draws on all categories of economic intelligence as to all foreign areas, - enemy, allied, and neutral.

B. Scope of Study. This study will seek to appraise the role of economic warfare in the present world crisis and to delineate the intelligence requirements for the support of economic warfare operations, with special emphasis on the transition from peacetime to wartime. It will deal first with the intelligence requirements for economic warfare policy (Part II). This will consist largely of estimates of capabilities and vulnerabilities, probable courses

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of action and probable effects of economic warfare measures. These estimates have been required during the prewar period for the determination of national policy and for advance planning of mobilization measures. They will continue to be a requirement of wartime operations, but their relative importance will be overshadowed by the volume and extent of current operations, out of which new policies and changes in policy will evolve. The study will then attempt to assess the intelligence requirements of economic warfare according to operations in the fields of ^{transactions} foreign trade, ^{and in} financial pressures, military, and political measures. (Part III). The sources of economic warfare intelligence with special reference to the new sources developed in wartime, and the processing, production and distribution ^{of economic warfare intelligence} will be reviewed (Part IV), again with special reference to the requirements of wartime as distinct from those of peacetime. Finally, in a consideration of the organization required for economic warfare intelligence in wartime (Part V), there is a brief review of the World War II experience, both US and British, the existing organization for economic intelligence, and a proposed plan of organization for economic warfare intelligence in wartime.

C. Assumptions. It is assumed that the various economic warfare measures will be administered by the appropriate existing agencies of the government, for example, export-import licensing by the Department of Commerce; actual implementation of export-import controls by the Bureau of Customs; foreign exchange controls

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by the Treasury Department and the Federal Reserve Banks; alien property control by the Department of Justice; preclusive buying by the Munitions Board and the General Services Administration; the ship warrant and navisert system by the Maritime Commission, the Navy, and the Bureau of Customs; and naval interception and military attack on economic targets by the armed forces. Some of these measures are now in effect with the machinery for their administration ^{already} functioning effectively. Others are closely related to the normal operations of the respective agencies and experienced personnel are available to implement them. It is further assumed that an Administrator of Economic Warfare will be appointed to coordinate both policy and operations in this field, or that a Coordinator of Foreign Economic Operations will perform this function as well as that of supervision of foreign economic assistance.

D. The Role of Economic Warfare in the Present Crisis. Until fairly recently it was ^{assumed} by many persons in this country and abroad that economic warfare would have a relatively minor role in any war with the Soviet Union. This reasoning was based on the following assumptions:

First, that the Soviet Union is largely self-sufficient, with relatively limited dependence on overseas trade, and is therefore not vulnerable to blockade; and second, that ~~neutral areas are~~ ^{insufficient}

that

that in any future world conflict there will be few if any neutral areas, neutral areas being the principal battleground of economic warfare.

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Both of these assumptions may now be challenged. It is true that the Soviet Union is largely self-sufficient for its somewhat austere civilian economy and its overseas trade is relatively small. But its industrial system, because of its lack of flexibility and diversity and specialization, is highly vulnerable to a denial of a ^{selected} ~~(limited)~~ list of strategic materials and of equipment and components representing an advanced technology. This has been pointed out in a series of reports and estimates by the American Embassy at Moscow ^{2/} and is further evidenced by the frantic efforts of the Soviet Union to acquire these items from the Western nations.

So also the assumption as to ^{limited areas of} ~~absence of any~~ neutrality in a future world conflict, especially one between the USSR and Western Nations, is now subject to review. As a result of military exigency and political expediency, there is a reasonable prospect of varying degrees of neutrality and non-belligerency for important and strategically placed areas. Economic warfare, therefore, has a very important role in the present crisis and will be an important, perhaps decisive, factor in a war of attrition with the Soviet Union.

E. The Transition from Peacetime to Wartime Intelligence Requirements. In peacetime the principal intelligence requirements of economic warfare are basic studies of the capabilities and vulnerabilities of various areas, studies of foreign trade and finance, basic commodity studies, and planning studies for economic warfare operations. In wartime and in the period of strained relations often preceding a war, there is a shift to the analysis and

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evaluation of current spot intelligence against the background of these basic studies. In peacetime probably nine-tenths of the information on which economic intelligence is based is from open sources. In wartime probably nine-tenths ^{of current information} is from intercepted messages, censorship gleanings, ^{and} classified and covert sources.

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In peacetime most economic intelligence is basic and strategic in character. ^{there is an additional requirement for} In wartime, it is current and tactical. ^{Intelligence,} as to a country's economic potential, ^{its natural resources,} its manpower, productive capacity, foreign trade, internal economy, long-term position, technological development, --- all this is strategic economic warfare intelligence. In the category of tactical economic warfare intelligence are such reports as the following: an unannounced ship is about to leave a neutral port; censorship reveals an illegal financial transaction; a member of a ship's crew is suspected of smuggling jewel bearings; a neutral trader is shipping to a suspected cloak; an intercepted message reveals negotiations between an enemy agent and a neutral firm. ^{Intelligence,} All of this is tactical economic warfare intelligence.

Stated another way, in the processing of information into strategic intelligence in peacetime, the emphasis is on the production of reports and estimates. In wartime it is on the analysis, interpretation, and evaluation of current, tactical, and spot reports, against a background of personal knowledge and studies and estimates for the most part previously prepared. More important now than refinement of estimates on the degree of capability or vulnerability in production of strategic commodities is intelligence as to how the Soviet supply, whatever it is, of strategic materials can be cut

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off or reduced; for example, ball bearings from Western Europe, pyrites from Spain, molybdenum from the US to UK to the Soviet bloc, aviation gasoline to Communist China and ^{North} Korea, petroleum drilling equipment from Austria to Roumania, transportation equipment from Western Europe to the East, which, ironically, may facilitate military movement from the East to Western Europe. Also needed is new intelligence of new Soviet requirements for new methods, new products, new weapons, and new requirements of materials previously without significance which, as substitutes for strategic materials, have themselves become strategic. Basic research and analysis in support of economic warfare operations were of somewhat greater relative importance in World War II than they may be expected to be in a future conflict because it was necessary in 1941 to "start from scratch." In the present situation there is a vast body of material prepared in World War II and the experience of that war available to us. The period of the cold war, furthermore, has afforded the opportunity and the necessity for many studies. This is not to discount the importance and urgent necessity for continued research and analysis. The Soviet situation and the Soviet methods differ radically from those of the Germans. Less basic information is available as to their foreign trade and still less as to their domestic production. A greater emphasis, therefore, is placed on the analysis and synthesis of current intelligence to supply this deficiency.

And so in organization for economic intelligence there is necessarily a conversion of at least part of an organization designed

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for the production of basic reports and estimates to one for the analysis and evaluation of current information and the support of daily operations. To borrow a figure from industrial production, what is indicated in the transition from peacetime to wartime intelligence production for economic warfare, is the conversion and retooling of a factory producing capital goods (basic studies) to one producing consumer goods (operational intelligence).

II. THE INTELLIGENCE REQUIREMENTS OF ECONOMIC WARFARE POLICY MAKING

A. General We are concerned here not with national policy as such but with the consonance of economic warfare policy and strategy with national policy. In broad principle the intelligence requirements for policy making and strategy in the field of economic warfare are not essentially different from those of policy making in other fields. Against a background of historical precedent and a comprehension of the foreign policy objectives of the US and other countries, they include an estimate of the current situation and of the probable consequences of alternative courses of action. More specifically, they include estimates of the economic capabilities and vulnerabilities of enemy, allied, and neutral nations; estimates of intention; and estimates of consequences of probable courses of action. While the outline of the National Intelligence Surveys and other basic peacetime economic studies of foreign countries is essentially the same for all countries, the pattern of the economic warfare estimates and the supporting data required for economic warfare policy and planning will vary according to the status of the country as an enemy, ally, or neutral.

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B. As to Enemy Nations. In the case of an enemy or potential enemy nation, the purpose of the estimates of capabilities and vulnerabilities is to determine ⁽¹⁾ its economic potential for war, ⁽²⁾ its intentions and probable courses of action, and ⁽³⁾ its deficiencies in raw materials, in technology, in facilities, in transportation, in manpower, and its vulnerability to interdiction of its international trade and the disruption by strategic bombing or otherwise of its domestic production and transport.

C. As to Allied Nations. In the case of allied nations or probable allies, the policies for which intelligence support is required have to do with the feasibility of combined or parallel action in the execution of economic warfare measures against the common enemy (especially in export-import controls, control of port facilities, communications, and blacklisting), ⁽⁴⁾ the ability of the allies to contribute to the allocation of essential civilian supplies to cooperating neutrals, ⁽⁵⁾ and the dependence of allies on neutral sources of supply, ⁽⁶⁾ and ⁽⁷⁾ the requirements of our allies for economic assistance.

D. As to Neutral Nations. The neutral nations, as stated above, constitute the principal battleground of economic warfare, and in this area will arise the majority of economic warfare problems requiring policy determination. Estimates of capabilities and vulnerabilities are for the purpose of determining the position of the neutral nation as a possible source of supply for the enemy. Intelligence support will be required for the negotiation of war trade agreements, which will seek to limit its exports to the enemy and to secure supplies for the US and allied nations; for preclusive buying programs, where export limitation agreements are not feasible

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or effective; and for determining the vulnerability of the neutral to pressures from the enemy or from the allies, and its ability to maintain its neutrality.

E. The Transition from Peacetime to Wartime Policy and Planning.

In the period preceding hostilities these estimates are in broad and comprehensive terms. Even though based on detailed studies of raw materials, manpower, and productive capacity and on economic organization, technological progress, and international trade and finance, and on all the factors enumerated in the National Intelligence Surveys, they necessarily include many assumptions as to possible future situations and conditions. After the outbreak of war these estimates can be brought into sharper focus as the status of various countries is revealed as that of enemy, ally, or neutral — black, white, or varying shades of gray. In the war period, furthermore, evaluation of the effects of existing policies and estimates of probable effects of proposed policies are largely the by-products of operational intelligence. Economic warfare policy and strategy are dynamic, not static, and the policy making process is necessarily a continuing one. New policies and changes in policy evolve from operational experience. In World War I the US, as late as October, 1915, vigorously protested to Great Britain that "the methods employed by Great Britain to obtain evidence of enemy destination of cargoes bound for neutral ports and to impose a contraband character on such cargoes are without justification indefensible illegal in conception and nature The task of championing the integrity of neutral rights the United States unhesitatingly assumes." But

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later as public sentiment became aroused in Britain's support, the US devised the "navicert" which was to become the principal instrument of economic warfare, and in 1917, of course, ^{the US.} became the full ally of Great Britain in the war. Sometimes the events that force changes of economic warfare policy come with dramatic suddenness. Today's events may make today's policies anachronistic tomorrow. Russia was delivering strategic supplies to Germany up to and including the week preceding the German invasion of Russia on 22 June, 1941.

~~In general~~, broad and basic estimates of capabilities and vulnerabilities are a requirement of peacetime planning. After the outbreak of war, these previously prepared studies furnish a basis or background for the evaluation of current intelligence and a point of departure for more specific estimates of capabilities, vulnerabilities, and probable courses of action. The necessary integration of the production of these latter estimates with the operational intelligence process and in fact with the close support of actual execution of economic warfare measures is illustrated in the experience of both the US and the UK in World War II referred to in Section V below.

III. THE INTELLIGENCE REQUIREMENTS OF ECONOMIC WARFARE OPERATIONS.

A. General. The intelligence requirements for economic warfare operations may be regarded as drawing on the entire field of economic intelligence. It is difficult to conceive of any area of economic intelligence, in wartime or in a "cold war", some aspects of which are not germane to economic warfare. Studies of economic organization, manpower, food and agriculture, forest products, minerals, fuels and power, manufacturing, transportation, communications, international trade and finance -- all furnish support for economic warfare operations.

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The requirements are largely for the analysis, synthesis, interpretation and application of that part of the various fields of economic intelligence pertinent to the particular problem. The resulting production of reports and estimates will "cut across the board". For example, an estimate of "The Vulnerability of the Swedish Iron and Steel Industry to Pressures from the East and the West" would require intelligence as to mining, manufacturing, transportation, finance, economic organization, international trade, and other subjects. So also would a study of "The Feasibility of Increasing Stockpile Objectives to the Point of Preemption of Certain Strategic Minerals, ~~of which US Reserves Are Marginal or Nonexistent,~~" or "Transit Trade to Eastern Europe through Trieste," (or Switzerland or Austria), or "The Feasibility of Preventing Export to the Soviet Bloc of Strategic Materials from Spain".

D. Foreign Trade Measures. As economic warfare seeks the attrition of an enemy's (or probable enemy's) economic potential for war, so the measures that seek to cut off his foreign trade represent the greater part of economic warfare operations and require the greatest amount of intelligence support. These measures are export licensing, import licensing, war trade agreements with neutral nations, control of neutral shipping, ^{prevention} control of enemy exports, prevention of smuggling, ~~unclaimed~~ listing and blacklisting, and preclusive buying. They are considered here according to the requirements for each operation. Obviously several operations may require the same intelligence support. In Section IV this intelligence is considered according to its source, and in Section V according to its subject matter and the organization required for its production and application.

It is interesting to note the extent to which

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the intelligence required for the various measures draws on the same sources of raw information and demands a similar type of analysis and estimate. This is due to the mutual impact and interrelation of the several economic warfare operations.

1. Export Licensing. Export licensing is usually the first measure of economic sanction or economic warfare to be invoked by a nation, for the reason that the implementation is entirely within its own power. Most other measures involve negotiation with other nations. Furthermore, export licensing may be and actually is employed to conserve supplies needed for the domestic economy or national defense and need not necessarily imply a sanction against any other country. Export licensing may be administered on a selective basis as to the commodities to be controlled, and as to destinations and consignees, or there may be embargoes or limitative controls by categories of commodities to all or certain areas. In peacetime or in the period preceding the outbreak of war, the controls are usually instituted on a selective basis. In wartime, of course, all exports to the enemy are embargoed, some commodities are embargoed to all destinations, materials in short supply are allocated among allies, minimum essential civilian supplies are rationed to neutrals, and non-strategic items in ample supply are uncontrolled except as to enemy destinations, or are controlled under general licenses.

In any event, the intelligence support required draws on the entire field of international trade, or all major categories of commodities, and on politico-economic intelligence as to all areas, but especially on intelligence as to deficiencies of the enemy or probable

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enemy. Intelligence is required for export licensing policy, programming, determination of the extent of controls, and the fixing of quotas. Intelligence is also required for the processing of the individual license, especially intelligence as to intermediaries and the ultimate consignee. This includes not merely checking against watch lists but positive intelligence as to his acceptability and also as to the ultimate end-use of the material. A vigorous and aggressive intelligence support is required for the enforcement of controls and the apprehension and treatment of violators. The burden of the intelligence support is more onerous in the case of the selective approach than in the categorical classification because of the ^{necessary} refinement of technical definition, process, and end-use, as well as the investigation of the consignees *and end-use of the material.*

2. Import Licensing. Import licensing may be used in the exercise of pressures on and inducements to neutrals in connection with the negotiation of war trade agreements and cooperation in other respects. It may also be used to supplement and reinforce the controls of enemy exports, by denying licenses for the import of commodities, any part of which is of enemy origin. It may also supplement foreign exchange controls in conserving or controlling US dollars. Perhaps the most important use of import licensing, however, is in the conservation and allocation of shipping space, but this objective is largely outside the field of economic warfare. The nature of the intelligence support required for import licensing is very similar to that required for export licensing, i.e. as to international trade, various commodities, and the political and economic situation in the exporting country and in the country

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of origin, if it represents a reexport, ^{about} Commercial intelligence is also required as to the consignor instead of the consignee as in the case of export licensing. 24

3. War Trade Agreements with Neutrals. This represents in some respects the most important area of economic warfare because, when satisfactory agreements can be reached, they may furnish the basis for export-import licensing, limitation of exports to the enemy, compliance with the navicert and ship warrant system, supply-purchase agreements, and other cooperative relations consistent with neutrality. The negotiation of war trade agreements requires intelligence as to the neutral nations' production, imports, consumption, and exports of the principal commodities, in order that import quotas may be agreed upon, against which all export licenses and all approved navicerts may be charged. In addition to this, estimates are required of the current political and economic situation of the country. Also required is biographical intelligence of the leading political personalities, especially those engaged in the negotiations.

4. Control of Enemy and Neutral Shipping. We come now to the principal weapons in the arsenal of economic warfare - the navicert, the ship navicert, and the ship warrant - the instruments of the "paper blockade." It is in fact a paper blockade. It depends for its effectiveness on political and economic pressures and inducements as set out elsewhere in this study, and of course, as a last resort, on enforcement by military and naval power. But its extent and effectiveness are far greater than could be achieved by physical enforcement alone.

Navicerts are in essence commercial passports. It is interesting to note that the navicert was invented by the American Consul General in London during World War I; its purpose was to facilitate

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American exports during the period of neutrality. The British instituted the navicert device early in World War II, December 1939, and made it compulsory in July 1940. All un-navicerted ships and cargo vessels were subject to seizure.

The ship navicert, as its text indicates, was given when all the items of the manifest had been navicerted. It permitted a ship to make a single voyage through naval controls. It provided a description of the ship and its proposed itinerary; a list of its officers, crew, and passengers; a description of its cargo, ship stores, mail, and money; an account of the source and destination, consignor and consignee. When an application for a ship's navicert was received, the crew and passenger lists were checked and a requirement made that objectionable persons be removed.

If the Americans devised the navicert it was the British who invented the ship warrant. A ship warrant entitled a ship to the use of British and Allied port facilities - bunkering, ships stores, repairs, etc.. To receive a warrant, the owner agreed that no vessel owned or controlled or operated by him would sail to or from the navicert area without a ship navicert; that he would not sell or part with effective control of any vessel owned by him without the approval of the Ministry of War Transport; that he would not employ any enemy company for the purpose of obtaining insurance or any other facilities; and many other agreements. In addition, fleet owners were required by the British to charter to the Ministry of War Transport a portion of their fleets. All of this constituted the price which the British put on the port facilities which they owned or controlled. It is claimed

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for the ship warrant system that it is a purely commercial bargain and avoids all questions of international law or even of diplomatic discussion. It was the price which the British put on facilities which they controlled. (*insert*)

✓ The intelligence support required for the administration of the navicert and ship warrant system and the control of enemy and neutral shipping requires first of all intelligence as to the movement of enemy shipping and the movement of all ships carrying unnavicerted cargo and all blacklisted ships, i.e. ships not having a ship warrant. Close liaison must be maintained with the Maritime Commission and with the commercial shipping information services. In the case of the British Ministry of Economic Warfare in World War II the liaison was a two-way street, the *NEW* posting *a* man in Lloyd's and Lloyd's keeping a representative in the Ship's Record (intelligence) Section of *NEW*. The movements of tankers were handled separately from those of dry cargo, and voyages were classified also as to area, e.g. Atlantic, Pacific, Black Sea, etc..

✓ In addition to intelligence as to voyages, the administration of the navicert system requires all of the economic intelligence required in the administration of export licensing. As the export licensing would control the export of materials from this country and from allied countries, so the navicert system would control the exports from neutral countries, and the same intelligence as to commodities, requirements, production and trade would be necessary.

The administration of the ship warrant system requires detailed intelligence as to port facilities - allied, enemy, neutral -

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After the US entered the war this country was associated of course in the ship warrant system and in fact cooperated during the period of "aid to Britain short of war". But it was the global chain of British ports that made the system most effective.

around the globe. This is necessary to know those facilities that are available and those that are not available to enemy and blacklisted neutral ships. Estimates are required of the ^{possibility} feasibility of "blockade voyages" in the light of refuelling facilities and other factors.

5. Control of Enemy Exports. The intelligence required for the prevention of enemy exports includes analyses of the normal peacetime export channels and the effectiveness of the measures adopted to close them; the requirements of neutral nations which were formerly met by imports from the enemy and the feasibility of supplying them from allied sources in consideration of the interdiction of the former trade; and analysis of proposed neutral exports to determine those which, or any parts or components of which, are of enemy origin, in order that navicerts may be denied. Censorship submissions and intercepted messages give some clue to enemy exports. The difficulty in controlling enemy exports to contiguous neutrals, however, is that the negotiations looking to the export and the financial transactions in connection therewith do not come under surveillance or control except to a limited extent.

6. Prevention of Smuggling. The prevention of the smuggling through the blockade of industrial diamonds, platinum, quartz crystals, mica, certain drugs and other highly strategic items of small bulk was one of the most difficult problems of the allied economic warfare agencies in World War II. The effort was made to control at the source the production and sale of strategic items susceptible to smuggling. Where possible, agreements were negotiated with the producing countries whereby the entire output was to be sold to the US or its allies. Movements of suspected black market operators were carefully watched by under cover

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operatives. Black market prices were watched as an indication of the presence of buyers. It was noted that prices rose sharply when certain neutral ships put into port. This led sometimes to interception and search of the vessels and seizure of the contraband. Few vessels were given a thorough search at control ports and even when this was done, it was difficult to discover small items in the absence of clues. These clues came principally from undercover operatives and intercepted messages. In addition to these sources, there is a requirement for foreign service reporting of market fluctuations, especially in the black market, and of transshipments, diversions, irregular movements and other evasions of the controls. The American Embassy at Brussels, for example, recently reported that [REDACTED] had a three page list of Swiss importers who were transshipping industrial diamonds to the East.

7. Proclaimed Listing and Blacklisting. The US "Proclaimed List of Certain Blocked Nationals" published first by Presidential proclamation July 17, 1941 was a list of

- (a) "certain persons deemed to be, or to have been acting or purporting to act, directly or indirectly, for the benefit of, or under the direction of, or under the jurisdiction of, or on behalf of, or in collaboration with Germany or Italy or a national thereof."
- (b) "certain persons to whom or on whose behalf, or for whose account, the exportation directly or indirectly of any article or material exported from the United States, is deemed to be detrimental to the interest of the national defense."

The British list of persons with whom it was illegal for any British subject to trade was known as the "Statutory List".
The Proclaimed List and the Statutory List were published

documents. In addition to these lists, both countries maintained "Blacklists" and "Watch Lists" which were secret. The Blacklists included

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all names on the proclaimed and statutory lists and in addition other names of persons against whom derogatory information had been obtained, but who had not yet been processed for the published lists or whose names for some reason were omitted from the published lists. In addition to these lists there was in each country a third secret "watch" list which carried no stigma, but as to whom there appeared to be sufficient reasons for surveillance. All names on the US Proclaimed List were automatically added to the British Statutory List, and after Pearl Harbor all names on the British list were added to the US list. At the war-time high the Proclaimed List consisted of over 15,000 names, and back of this were hundreds of thousands of files and countless documents, - censorship extracts, intercepted messages, abstracts from export license and navicert applications, foreign service reports, commercial reports, and many other items. In World War I, from Jan 1918 to April 1919, ⁴17,000 reports were digested by the Bureau of War Trade Intelligence. ⁵The sources of these reports were identified as follows: Censorship 40%, Foreign Service 30%, and Miscellaneous 30%. No comparable statistics are available as to the World War II experience, but there is evidence that the percentage distribution was similar, and the volume, of course, vastly greater.

In the event of war with the Soviet Union, it may be assumed that blacklists will attain even larger proportions and their maintenance present serious problems in intelligence and in administration. The fifth column of fellow travellers in many countries will be a fruitful source. In Asia alone, the Chinese business men in other countries are already giving evidence of "smiling as the wind sits," and enjoying the patronage of Communist China.

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The problems of intelligence support and administration of blacklists are so great, in fact, as to warrant consideration of "White Lists" instead of blacklists. The navicert and ship warrant system is essentially based on the principle of the "white list," as are most of our licensing systems in both domestic and international affairs.

The burden is on the licensee to prove his good faith in a number of undertakings, including in some circumstances the giving of bond. The principle of the "white list" is stated in the British Handbook of Economic Warfare ^C as follows:

"In countries where evidence as to undesirable commercial activities proves especially difficult to obtain (e.g., in territories where commerce is subject to little or no regulation and where men of straw, or "cloaks," can readily be found to cover undesirable transactions) the White List may be employed as an alternative for the Black List and Statutory List. It is, in essence, a list of traders known to be above suspicion; consignments to or from them are subject to no interference, while all transactions involving traders not on the White List are regarded with suspicion and as far as possible hindered."

Perhaps both White List and Blacklist, with an intermediate purgatorial list, may be advisable. In any event, the problem represents one of the most important intelligence operations of wartime. There is at present an urgent requirement for a comprehensive, coordinated Watch List, supported by files on each name, and coded on punch cards to indicate nationality, commodity groups and sub-groups, trade areas, and other relevant information. This would furnish the nucleus of a Proclaimed List in the event of war. The Department of Commerce maintains a small Watch List in connection with the enforcement of export controls. So also does the Economic Warfare Branch of the Economic Division of CIA. The Department of State has a Division of Biographical Data, and CIA has

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a Biographical Register and an Industrial Register. Neither of these last two includes foreign traders (both individuals and firms) as such.

The Inter-Agency Study Group reported to the NSRB on 11 April 1949:

"The Central Intelligence Agency has been queried as to the existence and availability of intelligence indicating the need for or the utility of a published black list in the event of war, and the status of its facilities for gathering information required in a blacklisting program. It would appear that no study of this nature has been made, that relevant information is spotty, and that adequate facilities to collect the necessary data do not exist."

The requirement, however, does exist.

8. Preclusive Buying. Preclusive buying requires the same types of economic reporting and intelligence estimates as are required in support of export-import licensing, negotiation of war trade agreements, and in the administration of the navicert system. In addition it requires current intelligence as to market fluctuations, and the operations and manipulations of enemy purchasing agents and black market operators. It also requires estimates of the feasibility of preclusive buying programs, including projections of the effect of such programs, lest they defeat their purpose by stimulating more and more production to be produced at higher and higher prices.

9. Financial Measures. In general the objectives of financial measures in economic warfare are (1) to prevent the building up of enemy external financial assets, (2) to vest or sequester such assets as exist or (3) to immobilize them by preventing their transfer between different centers, and (4) to bring financial pressures on neutral nations and their nationals. These objectives may be accomplished by the control of foreign funds and other assets; by foreign exchange controls; the export and import licensing of gold, silver and currency; the

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manipulation of foreign markets, e.g., the dumping of gold or silver on foreign markets where the enemy is selling bullion or specie for the purpose of procuring foreign exchange; and by the granting or withholding of credit, exchange facilities and insurance protection to neutral traders.

To support these operations, there are requirements for estimates and analyses of the fiscal position, financial resources, and monetary systems of enemy and neutral countries; observation and interpretation of clearing balances between enemy and neutral countries; analysis of international cartels and other international corporate and financial relationships; and examination and analysis of inventories of foreign funds and other foreign assets. There is also a requirement for the evaluation, interpretation, and analysis of financial information in censorship submissions, intercepted messages, foreign publications, interrogations, and other sources of current information with special reference to evidence of "cloaking" and other evasions and violations of the exchange controls.

2. Military Measures. Military action as a weapon of economic warfare denotes the use of the armed forces to deny to the enemy commodities required for the prosecution of the war. ^U This action is directed (a) at the disruption and destruction of the enemy's transport by all forms of blockade and (b) at the disruption and destruction of enemy industrial power by strategic bombing or other military attack on economic targets. Obviously, these measures frequently serve immediate military objectives as well as economic warfare objectives, as in the case of the capture of a port or other strategic transportation gateway.

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This should occasion no controversy, however, as to whether a particular measure or operation is military or economic warfare. The ultimate objective of all economic warfare is to support the military objective by the strangulation and attrition of the enemy's economy, and as stated above, economic, military, psychological and political weapons may be employed. And it is axiomatic that military operations are not an end in themselves but an instrument of national policy. Military operations in support of economic warfare, by sea, land, and air, are necessarily controlled and directed by the military on the basis of operational factors, but much of the intelligence on which they are based and the desired order of priority of targets are matters of economic warfare.

1. Disruption and Destruction of Enemy Transport. This includes (a) air and naval patrols (both surface and submarine), interception, and blockade; and (b) attack on strategic transportation targets by air, land, or sea. It is the former that we are concerned with primarily, in economic warfare not only because of the importance of the actual physical interception of contraband shipping, but even more so because of the fact that on this ultimate physical enforcement depends the effectiveness of the whole system of the "paper blockade". The intelligence required in support of the military blockade includes that previously outlined for export licensing. In addition there is a requirement for technical information as to enemy and neutral shipping, including identification, speed, fuel capacity, etc.. As it is improbable that nothing in the ship's papers of a blockade runner will indicate its destination and that nothing on the manifest of nonvictoried ships will

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indicate the contraband character of any of the cargo, there is a requirement for covert intelligence as to these covert shipments.

2. Disruption and Destruction of Enemy Industrial Power. In addition to all of the basic intelligence regarding enemy capabilities and vulnerabilities in certain industries and the desired order of priority of economic targets, such as electric power plants, petroleum refineries, munitions factories, synthetic rubber plants, or transportation gateways, there is a requirement for evaluated information as to the specific installation, including

- a. location of target, and identifying information as to nearby cities, industrial installations, housing, railroads, rivers, mountains, and other terrain features.
- b. physical description of plant and points of vulnerability.
- c. administrative information, including ownership, government agency having authority, and names of key officials of the facility.
- d. capacity and production, including types and quantities of products; serial number, trade-marks, and other identifying symbols;
- e. labor force, including numbers employed, work shifts, nationality, skills, percentage of forced labor, conditions as to housing, food, and other morale factors.
- f. Importance of this facility as determined by its contribution to the industry aggregate, by the distribution of its product, and by the dependence of other facilities on this source.
- g. Possible importance of this facility to US and allied occupation forces, in the event of occupation of the area.

h. Appraisal of the effect of bomb damage.
H. Other Measures. The foregoing represent the principal measures of economic warfare, but they are not exclusive of others, which may, in a

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given circumstance, be of great effect. Among these are psychological measures, sabotage, and a variety ^{of} activities to plague and confound the enemy and his friends. Examples of the last category are the dropping of counterfeit ration cards over enemy territory to confuse his rationing system, counterfeiting his money, and once in World War II, according to unevaluated reports, the "buzzing" of wild game herds in Africa to drive them from unfriendly to friendly tribes.

1. Promotion of Subversion and Disaffection in Enemy Industrial Areas. Just as military operations may be directed to economic objectives, so may psychological weapons be unlimited in support of economic warfare. Propaganda may be directed to certain industrial areas and individual facilities in coordination with military, economic and political strategy. For the benefit of the squeamish, the propaganda can be the propaganda of truth, and the more effective for that reason. The intelligence required in the selection of targets and in the choice of ammunition would include reports of conditions and incidents in the area concerned, evaluated against a background of knowledge of political, sociological and economic factors.

2. Sabotage of Enemy Supplies and Installations. Sabotage will ordinarily be the work of forced labor, dissident groups and individuals in the enemy country, and resisting patriots in the satellite and occupied areas. Sabotage is no longer as simple as the throwing of a shoe in the machinery, but may be a highly technical and complicated operation. Intelligence estimates will deal with the feasibility and probability of sabotage, the anticipated effects, and the requirements in materiel, and supplies for the operation.

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IV. THE INTELLIGENCE PROCESS IN ECONOMIC WARFARE

A. Collection.

1. Peacetime Sources. The peacetime sources of economic warfare intelligence are discussed in a paper by the Economic Warfare Planning Committee in the State Department under date of April 18, 1949, which is attached hereto as an Appendix. An effort has been made here to avoid repeating the points so well covered in that document.

a. International Trade Data. First perhaps on the list of peacetime sources of intelligence required for economic warfare should be statistics and other data as to international trade. The lack of uniformity in reporting and other deficiencies have long plagued economists. This was true even when there was the best of intention and good will. It has been greatly aggravated by the recalcitrance and secretiveness of the Soviets. It has been the belief of many that the complete and uniform reporting of data as to production, consumption, domestic distribution, and international trade by all nations would have tended to prevent wars, by indicating warlike intentions. The statistics of the League of Nations and latterly of the International Trade Organization, our own "Yearbooks" - Foreign Commerce, Minerals, and Agriculture - and monthly reports, are the principal reference sources along with the other sources discussed below.

b. US Foreign Service Reports. The periodic and special reports of our foreign service officers are the most fruitful source of intelligence for economic warfare policy and planning in peacetime and a valuable source for operational intelligence in wartime. In wartime the geographical area of their coverage is reduced by the recall of our representatives from enemy countries and by somewhat

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restricted opportunities in some neutral countries. Quantitatively, the intelligence from foreign service reporting officers in wartime is much less than that from censorship, intercepted messages and other wartime sources. "The Economic Manual: A Guide for Reporting Officers in the Foreign Service of the United States" is an excellent and comprehensive statement of economic intelligence requirements for all purposes, ^{and} so organized as to be of great use in economic warfare reporting. The adequacy of foreign service reporting is discussed in the Appendix.

c. Other Official Reports, Documents, and Intelligence Estimates. There is a vast resource of intelligence material pertinent to economic warfare in the various governmental agencies in Washington, the correlation of which is the statutory responsibility of CIA.

(1) State Department. Reference has already been made to the foreign service reporting, which provides the means of collecting economic intelligence for all government agencies. The Office of Intelligence Research (OIR) and the Office of Libraries and Intelligence Acquisition (OLI) provide the means for processing intelligence within the Department.

(2) The Armed Forces. Each of the armed forces maintains attaches attached to the US diplomatic missions. They report primarily on subjects of special interest to their respective services, but also make economic estimates. The Intelligence Division of the Army (ID) is interested in intelligence required for logistical operations, ~~and~~ planning for civil affairs, administration in the

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occupied areas, and in economic warfare. The Industrial College of the Armed Forces includes Economic Warfare in its curriculum. In fact, the study of economic warfare, as such, had its genesis in the US in the Industrial College in 1940. The Office of Naval Intelligence (ONI) is interested in these subjects and particularly in ship building, port facilities and related subjects. Air Force intelligence ^(AFI) is interested particularly in target information for strategic bombing, and its Strategic Vulnerability Branch has done extensive work in this field.

(3) Department of Commerce. The Department of Commerce is of outstanding importance in economic intelligence. Foreign service reports, especially those of the commercial attaches, are available to all departments and in the Department of Commerce are the basis for commodity, industry, and regional economic studies. While these studies are primarily for the benefit of US industry, they are also of great value in economic warfare. The Office of International Trade, the Office of Industry and Commerce, especially in connection with the administration and enforcement of export controls, the Civil Aeronautics Administration, the Office of Technical Services, the Patent Office, the Bureau of Standards, and the Bureau of the Census, - all have a significant contribution to economic warfare intelligence. Since the transfer of the Maritime Commission to the Commerce Department the intelligence support for the ship warrant system mentioned in III- 4 above is now in the Commerce Department.

(4) Department of Agriculture. In the Department of Agriculture, the Office of Foreign Agricultural Relations, the Agricultural Research Administration, the Forest Service, the Bureau of Agricultural Economics, and other units have furnished basic studies and

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current reports on agricultural commodities and on agricultural conditions in foreign areas.

(5) Department of Justice. Because of its interest in international carrels, the vesting or sequestration of foreign owned assets, and other matters related to economic warfare, the Department of Justice maintained in World War II an Economic Warfare Division. Since that time the Office of Alien Property has been placed in the Justice Department and, in addition to the administration of control or vesting of alien property, handles all litigation growing out of foreign funds program of the Treasury Department. The Federal Bureau of Investigation (FBI) rendered valuable assistance in World War II especially in connection with detection of smuggling operations and other violations. The Immigration and Nationalization Service, charged with the admission, exclusion, and deportation of aliens, and with their registration and finger printing, was a source of biographical intelligence and, ^{a means of} the discovery of sources for interrogation.

(6) Department of Interior. Minerals represent the largest category of strategic materials, and the Bureau of Mines and the US Geological Survey have been ~~the~~ sources of much of the basic material ~~and~~. The mineral attaches in certain diplomatic missions have furnished much of the current information essential to economic warfare operations regarding minerals, fuels, power, and water resources.

(7) Treasury Department. The Treasury Department was the first agency of the Government to implement an economic warfare measure in World War II, or, more properly, to apply an economic sanction, since the US was not at war at the time. This was the

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freezing of the assets of Norway and Denmark in April 1940 and the extension of the order in June and July 1940 to the Axis countries and the European neutrals. While this was for the purpose of protecting the interests of rightful owners of these assets from Nazi exploitation, it was also impressed with economic warfare considerations. From that time on the Treasury Department was actively interested in the implementation of economic warfare measures through its Foreign Funds Control and the Bureau of Customs, and in intelligence through its Monetary Research Division.

(8) Federal Reserve Board^{SYSTEM}. In intelligence support through its Division of Research and Statistics, and in implementation of foreign exchange controls through member banks, the Federal Reserve System also has a part in economic warfare.

(9) Department of Labor. The Bureau of Labor Statistics prepares studies of labor conditions in foreign countries, based in part on reports of labor attaches abroad.

(10) Tariff Commission. Because of the emphasis on international trade and world wide commodity studies, many of the reports and analyses of the Tariff Commission are germane also to economic warfare.

(11) Economic Cooperation Administration. While the ECA is concerned with foreign economic assistance, which is the antithesis of foreign economic attrition, its intelligence concerning the ERP countries is complementary to that regarding the Soviet and satellite countries and includes some of the most prominent of the probable neutrals. The statistical and other economic reports prepared by its large staff of economic analysts contain much intelligence of economic warfare import.

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The ECA does not have an intelligence Division as such. It does have a

Statistics and Reports Division and a Security and Investigation Division,
but its intelligence production and analysis in Washington is largely
integrated with the work of the various functional divisions.

(12) Department of Archives. The Department of Archives is the repository of a vast store of official documents and records, in amazingly available arrangement when the quantity and diversity of the material are considered. The Department is engaged in the preparation of a series of handbooks of records of World War II that will make these records even more serviceable.

(13) Other Agencies. The foregoing list is not intended to be exclusive of a number of agencies, some of them very closely identified with economic warfare, but otherwise than in intelligence support, for example, the National Securities Resources Board and the Bureau of the Budget in connection with mobilization planning and organization; the General Services Administration in the implementation of preclusive buying; the Export-Import Bank in financial intelligence and in the negotiation of foreign loans; the various wartime agencies, notably the Office of Censorship, the predominant source of economic warfare intelligence in wartime discussed elsewhere in this study, the War Production Board, the Office of War Information, the Petroleum Administration for War, the War Shipping Administration, and others.

(14) Central Intelligence Agency. And finally, of course, there is the Central Intelligence Agency, charged by statute with responsibility for correlating all intelligence affecting the national security and making recommendations to the National Security Council for coordination of intelligence activities. It is accordingly the responsible agency under the National Security Council for the correlation of economic warfare intelligence at the national level.

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Exploitation of domestic sources of foreign intelligence, covert operations overseas, and monitoring of foreign broadcasts — all important sources of economic warfare intelligence are among the services performed by CIA of common concern to all the intelligence agencies.

d. Library Material. First among the sources of library material is the Library of Congress. In addition to its own unequalled resources, it publishes the "Library and Reference Facilities in the Area of the District of Columbia" covering more than two hundred general and specialized libraries. These facilities and indeed the resources of the research libraries throughout the nation may be tapped through inter-library loans. The Interdepartmental Committee for the Acquisition of Foreign Publications (INDEFOP) left a rich legacy for research analysts in the field of economic warfare.

e. Private Foundations, Scientific Associations and Economic Study Groups. The Rockefeller Foundation, the Carnegie Endowment for International Peace, the Brookings Institution, the National and American Geographic Societies, the various engineering, scientific, and professional associations, the American Economic Association, and international commercial study groups such as the International Rubber Study Group and the International Tin Study Group — all are invaluable sources of basic studies and current information. The list is intended merely to suggest many other organizations of which these are typical. Some of them sponsor research projects of considerable scope and depth, some organize special missions and expeditions, some conduct institutes of international affairs. The published and unpublished records of most of them yield valuable material to the economic warfare analyst.

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f. Foreign Broadcasts. In World War II the Radio Unit of the Economic Intelligence Division in the Board of Economic Warfare processed reports and transcripts of foreign broadcasts. These broadcasts were monitored for the most part by the Federal Communications Commission, the output at times approximating three thousand pages per day of monitors' reports and transcripts. (Approximately 85,000 words daily are monitored, translated, transcribed or digested, and disseminated to the appropriate divisions for analysis and interpretation.) In addition there was an exchange of selected material with the British Broadcasting Corporation and other allied sources. Only a small portion of the broadcasts contained information of value, but the potential significance of that small portion was frequently very great. It required the winnowing of a vast amount of chaff to separate the grain. Evaluation and interpretation were very important. For example, the theme of the propaganda to condition the public mind might be an indication of a probable course of action. It is also frequently necessary to broadcast official announcements to the people even at the calculated risk of its disclosure. As stated above the monitoring of foreign broadcasts is now a responsibility of CIA.

g. Refugees and Displaced Persons. Never before in history have there been so many displaced persons in the world as the millions who were exiled by or who fled first from Nazi and then from Soviet tyranny. From German Sudetenland, from Silesia, from the Baltic states, from Poland, Czechoslovakia, Hungary, Rumania, Bulgaria, Albania, from Communist China and, when they could, from the Soviet Union itself. Most of them have refused to return to their former homelands now held by the Communists. Many have resisted or escaped the Soviet kidnappers.

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operating in the name of repatriation. Among their number are statesmen, scholars, scientists, engineers, artists, lawyers, doctors, farmers and laborers. Their value as sources of intelligence has been recognized. They are being developed as much as time and available personnel will permit. But more needs to be done. The first intelligence requirement is as to these people themselves, as groups, as types, as individuals; then the exploitation of selected sources both for the information they have and for what they can acquire, not merely passive but active intelligence. And not merely intelligence but operations of resistance, of liberation, but this is beyond the scope of this study.

h. Returning Travellers and Merchant Seamen. Returning travellers from abroad especially merchant seamen can be a fruitful source. Early in World War II, the Office of Naval Intelligence, in their "Boarding Reports" included information on economic conditions in foreign ports. In September 1942, the Economic Intelligence Division initiated an organized program in cooperation with the maritime unions for interrogating merchant seamen. In December of that year the operations were turned over to the Office of Strategic Services and became known as the Ship Observer Project, and in addition to the economic information yielded political, psychological and even military intelligence.

1. US Firms and Trade Associations. The foreign economic intelligence in the possession of US exporters and importers, manufacturers, engineers, banks and insurance companies, and trade associations is practically unlimited. They have traded with or in competition with international traders all over the world. They have supplied equipment and technical "know-how", for industrial facilities. They

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have built and operated subsidiaries in many of the leading countries.

They have conducted research into markets, actual and potential. They have financed capital improvements and commercial transactions. They know the capabilities and vulnerabilities of the major industries and the individual facilities. They know the requirements and sources of essential raw materials, and possible substitutes for those in short supply.

The intelligence is there. It is freely available, and yet its adequate exploitation presents serious difficulties in administration, in collection, evaluation, analysis, interpretation and dissemination. Such was the duplication and competition in this field in the early years of World War II, between OSS and FEA, that they finally worked out a modus vivendi in this as in many other problems, and combined their efforts. As a result of this experience, after the passage of the National Security Act of 1947, the exploitation of individuals and organizations in the US for intelligence purposes was made the responsibility of CIA. The Planning Study for Economic Warfare prepared in the State Department in April 1949 states:

"At the present time, through branch offices established in the principal cities, and through a contact register in Washington, CIA is collecting and disseminating a large quantity of useful intelligence information from these sources. As presently carried on, however, there are serious shortcomings in the operation. NSCID 7 does not recognize explicitly either the interests of civilian non-IAC agencies in the information derived from these sources, or the capabilities of the civilian agencies for collecting information as a by-product of their normal operations. Although the directive requires the IAC agencies to make available such information acquired in the course of their normal operating contacts with domestic sources, the Department of State has no established procedure for effecting this provision. There is no doubt that many areas of the Department are regularly acquiring useful economic intelligence information which is not being disseminated to interested agencies or even to other areas of the Department itself. Undoubtedly the same condition exists in other IAC and non-IAC agencies. The steps which should be taken, therefore, are (1) to recognize the interests of , and

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the role which can be played by, the non-IAC agencies with respect to these sources; (2) to establish within the Department of State (and other agencies) procedures for gathering and disseminating the information collected as a by-product of normal operating contacts with business firms, individuals, etc./ (3) to strengthen and use more fully the resources of CIA in tapping these sources. 2

Trade associations have exceptional opportunities and facilities for the collection and production of intelligence on an industry-wide basis and have made notable contributions. Typical of these associations have been the American Iron and Steel Institute, the Machine Tool Builders Association, the National Industrial Conference Board, the National Foreign Trade Council and countless others.

2. Additional Sources Available in Wartime. In addition to the foregoing catalog of some of the sources of economic intelligence available in peacetime, important additional sources are available in wartime. Among these are censorship, intercepted messages, interrogation of prisoners of war, analysis of captured enemy materials, espionage and aerial reconnaissance.

a. Censorship. As has already been indicated, censorship is the source of the greater part of current economic intelligence in wartime. The extent to which the principals or agents in illegal or inimical transactions will go in their communications is almost incredible. Sometimes, it is due to carelessness or ignorance; sometimes the parties think they have successfully concealed the significance of the message; sometimes they assume a calculated risk, such is the urgency of the communication; sometimes the information is revealed by collateral references of innocent parties; sometimes a clue is gleaned from the mere fact of correspondence between certain parties even though a private code is used; sometimes the volume of communications fo

from or to a given source is an indication to an alert censor or intelligence officer of suspicious circumstances.

Whatever the explanations, censorship in World War II spotted a number of targets for the economic warfare batteries. Among these were the following:

Obtained information pinpointing for the Air Force targets of strategic and tactical importance; such as the exact engineering details of the dams in the Rhine area and previously unknown defenses being constructed in the Hague Forest of the Netherlands capital.

Obtained information concerning strategic and critical materials making it possible to increase Allied war production and weaken the enemy's production; one censorship item alone enabling the War Production Board to obtain \$25,000,000 worth of much needed textiles; other censorship items uncovered some \$2,000,000 worth of dragline dredges, galoshes, cocoa, cattle hair and other diversified commodities.

In the case of illicit traffic in commodities via parcel post between the United States and the Near East seized parcels valued at more than \$100,000, in addition to which about \$200,000 worth of merchandise was returned to the senders because of violations of export licenses not warranting seizure.

Exposed black market activities.

Discovered and reported violations of export license controls; at one time, according to an official of the Foreign Economic Administration, 60% of the cases of violations of export licenses were discovered through censorship.

Aided in preventing the outward flow of technical data.

Helped to implement controls of the international transfer of funds; one group of censorship items showing how funds had been provided to build up a stock of goods at a Latin American port for transport by a German blockade runner, while in another instance censorship material showed that a considerable amount of money sent to the Bank of China was intended for beneficiaries in Japanese-Occupied territory.

Assisted in the enforcement of restrictions applicable to the Proclaimed List of Blocked Nationals; one of censorship's greatest contributions in this respect being to supply data indicating that listed parties were using intermediaries or clocks to mask their activities.

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Detected commercial transactions which might have resulted in the Nazis obtaining vitally needed commodities. =

It is desirable for the economic intelligence agency to prepare a manual of instructions to censors and to keep it current. It is also important to post economic intelligence officers in the principal censorship control offices. Even so, with the vast volume of material handled, it is not feasible to be too discriminating in the first selection as to what may or may not be of value to the economic warfare agency. Accordingly, a unit in the latter agency must further screen and analyze the material and prepare copies or extracts or digests for the interested branches. Thousands of these are handled daily.

b. Intercepted Messages. In addition to the information submitted by the censors, there are intercepted telecommunication messages between enemy and neutral countries. Many of these are in the clear, requiring only to be translated, while others are transmitted in private, commercial, or official codes. Here again there is a first sifting in the communications agency and then in the intelligence agency and final processing by the appropriate analysts.

c. Captured Enemy Material. From the beginning of World War II, and in fact in the period between the wars, the British had made careful technical examination and analysis of German materiel and supplies and found it an important source of intelligence regarding the enemy's supplies of raw materials, his use of substitutes, manufacturing processes, technical innovations, and other factors in production. The laboratory analysis in some respects was not unlike that of the Federal Bureau of Investigation's crime detection laboratory, and frequently as fruitful of clues. It was not until 1943 that the Economic Intelligence Division of FEA undertook similar activities with regard to Japanese materials.

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Prior to that time the War and Navy Departments had been examining enemy materiel primarily with a view to determining the military operational potentialities and limitations of such equipment, and the possibility of any improvements that might be introduced into our own design. The economic intelligence now sought had to do with (1) substitutions revealing shortages, (2) quality of workmanship, (3) features of design, especially changes, [REDACTED]

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d. Prisoners of War. While the first objective in the interrogation of prisoners of war is to extract information of immediate military significance, it is also true that many of them are possible sources of economic intelligence of great value. Due to lack of coordination and sometimes of cooperation, the economic intelligence agencies in World War II had only limited opportunity for interrogation of prisoners of war. ¹¹ In some theaters, however, notably at New Delhi, where the Combined Services Departmental Intelligence Center (CSDIC) was organized, very important results were achieved. A valuable aid to intelligence officers, - whether economic, military, scientific, political, - is an Economic Interrogation Manual kept up to date, and classified not only by industries and regions, but according to the experience and competence of the type of individual being interrogated.

e. Espionage. Covert intelligence in World War II was the responsibility of the OSS. In this as in so many other respects there was for a time an unwillingness to make the intelligence available to

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the Economic Intelligence Division of FEA. After FEA took proper security measures, however, the economic intelligence obtained through covert means was made available to them. Since the establishment of CIA with responsibility for this type of intelligence collection overseas, this is a valuable source of voluntary reports as well as reports in response to specific economic intelligence requirements.

f. Aerial Reconnaissance. Great progress was made during and after World War II in the development of aerial photography. The new techniques of making mosaics and the specialized skills in interpretation have greatly increased the value of this intelligence especially for economic purposes. It is frequently possible to assess with fair accuracy new industrial developments, the extent of industrial activity at a particular facility, the nature of bomb damage, condition of agricultural crops, congestion in transportation gateways, and character and direction of transportation movements.

g. Other Pictorial Coverage. A Pictorial Records Section was established in OSS with the idea of becoming the central collection for all government agencies. This unique collection is now in CIA, and the recommendation has been made ¹⁴ that it be maintained as a "common service" to IAC and non IAC agencies.

h. International Exchange of Economic Intelligence. Economic warfare, even more than any other phase of the war effort, requires combined, or parallel and coordinated operations among allies. In economic warfare, the measures and the weapons are largely the same and they are employed from a world wide viewpoint. It is the same firms and individuals to be blacklisted by the allies for trading with the enemy, the same ships to be navicerted or intercepted, and the same

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commodities to be preempted, By the freest exchange of intelligence consistent with security, and by a division of labor to avoid duplication and to conserve manpower, each of the allies can have more complete and valid economic intelligence than would otherwise be possible. All such intelligence must be carefully examined and evaluated for subjective elements and national bias. Another important warning to be observed is not to permit US agencies to compete one with another in securing intelligence from allied sources and at the same time make it possible for allied agencies to play off one US agency against another. Perhaps the cooperation between the British Ministry of Economic Warfare and the succession of US agencies in this field, beginning with the Administration of Export Control and continuing through the FEA, was the finest example of allied cooperation which the war afforded. As early as March 1941, the Administrator of Export Control posted an officer in the MEW in London and in 1942, after our entry into the war, this liaison was expanded into an Economic Warfare Division of the American Embassy. Combined committees were established for all economic warfare operations.

B. Production. Having considered, in barest outline and suggestion, the requirements of economic warfare intelligence and the sources for collection of the information on which it is based, it is order now to look at the methods of processing that information into intelligence. Again, as in the case of the requirements and the sources, it is to be noted that, in the event of actual war, and even now with the accelerating tempo of the economic war, significant changes will be necessary in the processing and production of the supporting intelligence. Now, more than ever, time is of the essence. Comprehensive treatment of the

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subject, the manner of organization and presentation, perfection of style, complete coordination - all always desirable - are less important now than speed, the greatest possible speed in distribution to the using agency consistent with accuracy of the evaluation and soundness of the estimate.

The steps in the processing of information into intelligence are usually identified somewhat as follows: classification, indexing, synthesis, analysis, interpretation, evaluation. The steps frequently occur in that order, although, of course, not necessarily so. Evaluation and interpretation may be necessary at various stages in the process from the source to the finished product. Classification and indexing have a much greater significance than these words usually connote. The classifying and indexing are done not merely for future convenient reference. They serve an immediate purpose - that of matching up the pieces of the jig-saw puzzle into an identifiable intelligence picture. Interpretation and evaluation are both more difficult and more important than in the peacetime process. Censorship submissions and intercepted messages, frequently translated from a foreign language, and even when not in code, frequently have a jargon familiar only to the parties concerned. But after the message is made intelligible, its significance can usually be interpreted and evaluated only in a synthesis of other messages between the same points, or the same parties, or with reference to the same or similar transactions.

And as the uses and the sources and the Methods of processing economic intelligence undergo radical changes in the transition from a peacetime to a wartime economy, so does the form which the production takes. As stated in the Introduction, while there will be a greater need

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than ever for reports and estimates, periodical and special, in support of economic warfare policy and operations, there will be an even greater requirement for current intelligence memoranda and spot reports. Quantitatively, these latter forms will constitute by far the greater part of the production.

D. Distribution of Intelligence. It is to be noted that "distribution" is used here rather than the usual word "dissemination". The distinction is important. "Dissemination" has always been an inaccurate and unfortunate word for the distribution of intelligence. According to Webster, "disseminate" means "to ~~say~~ broadcast, to spread broadcast; to spread, disperse, scatter," while "distribute" means "to deal out, to ~~allo~~te." Certainly it is not desirable to scatter, or to spread broadcast secret intelligence. Not only for security reasons would it be wrong to disseminate intelligence. To disseminate information and intelligence to analysts and others who are not concerned with the subject of that particular intelligence is a needless waste of their time. It also denies or delays the distribution to someone else who does require it. The ideal distribution is to deliver as promptly as possible to every analyst all the information he needs and nothing else; to deliver to each using agency the intelligence which it requires and nothing else; and within each agency to distribute the intelligence to each officer who requires it and to no others. Only the less important material should be "circulated." Within the agency all incoming intercepts, reports from overseas, and other information requiring action, should be duplicated, or digested and then duplicated, and distributed as fast as received throughout the day - and night - to the responsible branches, with one copy designated as the action copy.

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So much for the distribution within the Agency. The final product may be no more than this bare message properly interpreted and evaluated. Or it may be an estimate or a study based on this and many other items and the result of much research and analysis. In any event, the final product should be delivered as speedily as possible to the Agency or Agencies, the individual or individuals, who require it. Then, and not before, is the intelligence process complete.

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V. Organization for Economic Intelligence in Wartime.

A. The British Experience. Prior to the outbreak of World War II on 1 September, 1939, the British Committee of Imperial Defense had developed complete plans for the conduct of economic warfare and for the creation of the Ministry of Economic Warfare. These plans included the theory and organization of economic warfare, the weapons, and the procedures, with drafts of the necessary legislation and orders in council, a plan of organization for the Ministry of Economic Warfare, and for the implementation of the various economic warfare measures by the appropriate agencies of the government. It was a plan more honored in the observance than in the breach. The legislation was enacted without change on the day war was declared, and the Ministry of Economic Warfare sprang into being and into action. The only important change that occurred in the early life of the ministry was one of special pertinence to this study. In the beginning the MEW consisted of an Intelligence Department, a Plans Department, and three operational departments—Foreign Relations, Prize, and Financial Pressure, with a Legal Department and Establishments (administrative) Department. The Plans Department was to make plans covering the whole field of economic warfare, and the Intelligence Department was expected to centralize all the intelligence work. However, the separation of intelligence from action, and even more, the existence of a separate planning body between the two, proved unsatisfactory. When time was of the essence, action frequently had to be taken, while, as one official expressed it, the Planning and Intelligence Departments "were running behind trying to catch up with the bus."¹³ Planning, intelligence and action were therefore amalgamated and the division of work made largely on a territorial and a functional basis. Planning, intelligence, and action

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were, of course, still recognized as essential elements, but they were combined in the appropriate territorial or functional department.

Certain intelligence functions were performed in the "Records and Statistics Department" as shown in the attached chart, Appendix _____, which included the Censorship Section, Ship's Record Section, Blacklist Section, and Statistics Section. Even in these sections, however, certain operations were performed. In the Blacklist Section, for example, was the administration of the Statutory ^{LIST} and Blacklist.

This close integration of intelligence planning and operations in wartime is significant of the transition from peacetime to wartime requirements. Probably half of the work of the MEM was intelligence and the "operations" consisted largely of instructions to the various agencies of the government to execute specific measures - to the Admiralty to intercept a ship, to Export Licensing Department to deny a license, to the Board of Customs in the control of ships' privileges under the ship warrant system, to the United Kingdom Commercial Corporation to make preemptive purchases, etc.. The most important "operations" performed by the MEM were negotiation of War Trade Agreements, a responsibility which was delegated to MEM by the Foreign Office, and the administration of the navicert system. Not only was the Ministry of Economic Warfare, the agency for the coordination of economic warfare, it was in effect the Economic Intelligence Agency for the entire government. All of His Majesty's representatives abroad, ^{AND OTHERS} diplomatic and consular representatives, the Censorship, and the armed forces, reported directly to the MEM on matters of economic warfare.

For centuries Britain as a great maritime power had relied on the blockade, in the broad definition, as the principal feature of its grand

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strategy. Most of techniques, most of the terminology, are as British in their origin as common law pleading or the English language itself. All of this is not to say that the US did not play an important part in economic warfare in both world wars. In preclusive buying, in negotiations with the Latin-American countries and, most important of all, in the control of exports from this "arsenal of democracy," the US ultimately had the major role. Since World War II and in the present "cold war" there is no indication that Great Britain, now or subsequently, will place any great reliance on economic warfare. At the moment, certainly, the English accent is on present economic recovery rather than ultimate military security. The major responsibility, accordingly, is for economic sanctions in the cold war, and economic warfare in the event of hostilities, rests with the US.

3. The US Experience. The succession of agencies - the Administrator of Export Control, the Economic Defense Board, the Board of Economic Warfare, the Office of Economic Warfare, and finally the Foreign Economic Administration, and concurrently with this the Coordinator of Information which became of the Office of Strategic Services - tells a story of improvisation, in contrast to the British advance planning. Both the FEA and the OSS had intelligence and operational responsibilities in the field of economic warfare, but after a period of duplication and jurisdictional disputes, ^{these agencies} collaborated in the collection, analysis, and application of economic intelligence, and worked out a satisfactory modus vivendi.

Economic warfare intelligence in World War II began with the establishment in 1940 of a Projects Section in the office of the Administrator of Export Control. This later became a Research Division, with an intelligence Section, in the Economic Defense Board. Shortly after Pearl Harbor,

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this Board, now called the Board of Economic Warfare, divided this Research Division into four geographical divisions - European, British Empire, American Hemisphere and Far East.¹⁵ Each division had an analysis section and an intelligence section. By the end of April 1942, the intelligence sections of the four geographical divisions were combined into a single Economic Intelligence Division. It should be noted that this division was concerned primarily with procurement of intelligence. The work of analysis, with or without positive recommendation, was the responsibility of the Office of Economic Warfare Analysis. It should also be noted that MEW and its successor agencies also had a Trade Intelligence Division which had the responsibility of procuring, analyzing and applying economic intelligence to the export licensing procedure. Following a visit of the Chief of the Economic Intelligence Division to London in July 1942 the economic intelligence function was brought closer to operations by making the Economic Intelligence Division a part of a newly organized Enemy Branch. The functions of the Intelligence Division were described as follows: ¹⁶

- "a. The compiling, classifying, and routing of information obtained from censorship intercepts, foreign radio broadcasts, foreign publications, British MEW, American business firms with foreign interests, refugees, returned travelers, foreign representatives and other Government agencies and all sources other than espionage;
- "b. The answering of specific requests for economic intelligence information from other Divisions of the MEW, the armed forces, and the Ministry of Economic Warfare;
- "c. The continual search for new sources of economic intelligence;
- "d. The indexing, routing and safeguarding of all restricted, confidential, and secret documents which originate in the Board or come to the Board from other sources."

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Later, on 30 November, 1942, the Assistant Director, Office of Economic Warfare Analysis, Board of Economic Warfare, stated the essence of the intelligence function to be "to find and exploit all possible sources of economic information useful in the work of economic warfare and to mobilize this information in such a way that it makes the maximum possible contribution to the work of the Board." The Economic Intelligence Division lived happily ever afterwards, or rather to the end of the war and the liquidation of BEA.

C. Present Economic Intelligence Organization in the US. At the present time there is no Office of Economic Intelligence as such at either the departmental or national level; the Office of Intelligence Research and the Office of Libraries and Intelligence Acquisition in the Department of State deal with all classes of intelligence but with special emphasis on the political and economic. The activities of other agencies in matters connected with economic intelligence were reviewed in IV-A above. In the Office of Reports and Estimates of CIA, there is an Economic Division consisting of twenty-five persons, of whom three are in the Economic Warfare Branch, and an Economics Branch in the Eastern European Division, also consisting of some twenty-five persons. But there is no comprehensive economic intelligence organization equipped to deal with both strategic and tactical economic intelligence either at the departmental/~~or~~ national level.

The Interagency Study for Mobilization Planning on Export Controls, on March 31, 1949 made the following recommendation^{16/}

"It is believed that adequate handling of export controls can be carried out only within the framework of total economic warfare, and it is therefore recommended that an economic warfare agency with overriding powers over all foreign economic activities be established immediately. Pending the staffing and operation of such an agency, the President should designate agencies currently responsible in these fields and should provide for an interim coordinating authority to carry forward the necessary immediate action. Within such an agency which would include relevant activities and personnel transferred from existing

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agencies, plans and policies established in the interim period could be put into effect promptly."

If an Economic Warfare Agency is established, it will require intelligence support from the CIA, and will also require an intelligence division within its own organization. An Office of Economic Intelligence within CIA could discharge CIA's responsibility for Economic warfare intelligence at the national level and could furnish the nucleus of an intelligence division for the Economic Warfare Agency.

D. A Proposed Plan of Organization. Attached as Appendix _____ is the outline of a proposed plan of organization of an Office of Economic Intelligence. It is not offered as a rigid pattern, and is not complete in detail. There are many ways in which such an organization could be constituted. This is one. The attempt has been made to give consideration to a division of labor in accordance with the major responsibilities and with due regard to a reasonable span of control. It will be noted that there are six divisions -- Regional, Commodity, Intelligence Support, Information Control, Publications, and Administrative. This recommendation is based on the postulate that most economic intelligence, and particularly economic warfare intelligence, involves regional, commodity, and functional considerations. The regional branches will be concerned primarily with the political and general economic conditions in each region, while the commodity branches will be concerned with particular commodities, and the Intelligence Support branches with the application of the intelligence to the various specific foreign economic operations. The other three divisions -- Information Control, Publications, and Administrative -- have to do with the internal working of the Office. As will be apparent from the discussion of the various divisions which follows, close collaboration between them will be necessary. Most of the intelligence production, whether comprehensive studies and surveys or evaluated spot information, concerns each of the divisions,

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but usually in different aspects.

1. Regional Division. The Regional Division, here proposed, would be divided into three branches, dealing with Allied, Enemy, and Neutral areas. In wartime, foreign countries are considered in these groupings, and in some matters the respective groups can be dealt with as an entity. In other matters, the nations must be dealt with individually and accordingly each regional branch *would be* ~~is~~ divided into the various "country desks." The country desks and the regional branches would be concerned primarily with the politico-economic aspects of intelligence, and with economic conditions in the respective countries and regions, and with some part of each of the foreign economic activities listed under the Intelligence Support Branch.

2. Commodity Division. The Commodity Division would be divided into branches according to a grouping of the principal commodities, for example, iron and steel, nonferrous minerals, petroleum products, food and agriculture, machinery, chemicals, electronics, electric power, and transportation equipment. The commodity branches would deal both with the respective raw materials and with the corresponding industries and industrial products. Commodities not included in any of these groups would be handled by the most nearly appropriate branch. Food and Agriculture Branch, for example, would handle forest products, textiles, leather; the Chemical Branch would include pharmaceuticals. In many items, more than one branch would be interested. Steel rails would be a responsibility of the Iron and Steel Branch as to production matters, and of the Transportation Equipment Branch as to transportation requirements. The Commodity Division would be responsible for the production of basic commodity studies and, more importantly, for the adaptation of such studies to current situations. It would also be responsible for the evaluation of current and spot information involving commodities.

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3. Intelligence Support Division. In response to requests from the using agencies and on its own initiative, the Intelligence Support Division would develop requirements for intelligence. It would cooperate with the appropriate regional and commodity branches in producing and evaluating intelligence. It would be the liaison of the Office of Economic Intelligence with the corresponding divisions of the economic warfare agency. If, as was the case with the British Ministry of Economic Warfare and to a large extent our own Board of Economic Warfare and its successor agencies, intelligence should be merged with operations in economic warfare, these branches would become operating units or would be merged with their opposite numbers in the operating agencies.

4. Information Control Division. This division would be responsible for the receipt and distribution to the appropriate branches of all incoming raw information from censorship, intercepted messages, foreign broadcasts and publications, interrogations, and other sources, and for the receipt and distribution and filing of intelligence reports and estimates from other offices of CIA and from other sources. It would maintain the Office library and files and records. It would be responsible also for the general distribution of intelligence publications of the Office other than those transmitted directly by the Intelligence Support Division to the using agencies. In the receipt of the incoming information and its distribution to the appropriate branches of the Office of Economic Intelligence is one of the most interesting and important functions of the entire economic warfare operation. As described in IV-D, this branch would receive the thousands of items daily from censorship, intercepted messages, and other sources, and would duplicate, or digest and then duplicate, and distribute to the appropriate branch all incoming intelligence. The Receipt, Reproduction, and Distribution Branch would work around the clock, in order

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that this important incoming information could be distributed immediately and simultaneously to the interested branches, with one action copy to the branch with the apparent dominant interest. These items are numbered and the interested branches can secure comment or concurrence in proposed action by telephone. In blacklisting, export licensing, and navicart approvals, or denials, these are usually cleared in volume in daily meetings of the appropriate committees.

5. Publications Division. The Publications Division would edit and publish the periodical and special reports of the Office of Economic Intelligence.

6. Administrative Division. This Division, with branches on personnel, office management, and security control, would have responsibility for these functions, subject, of course, to the responsibility of the corresponding units at the Agency level.

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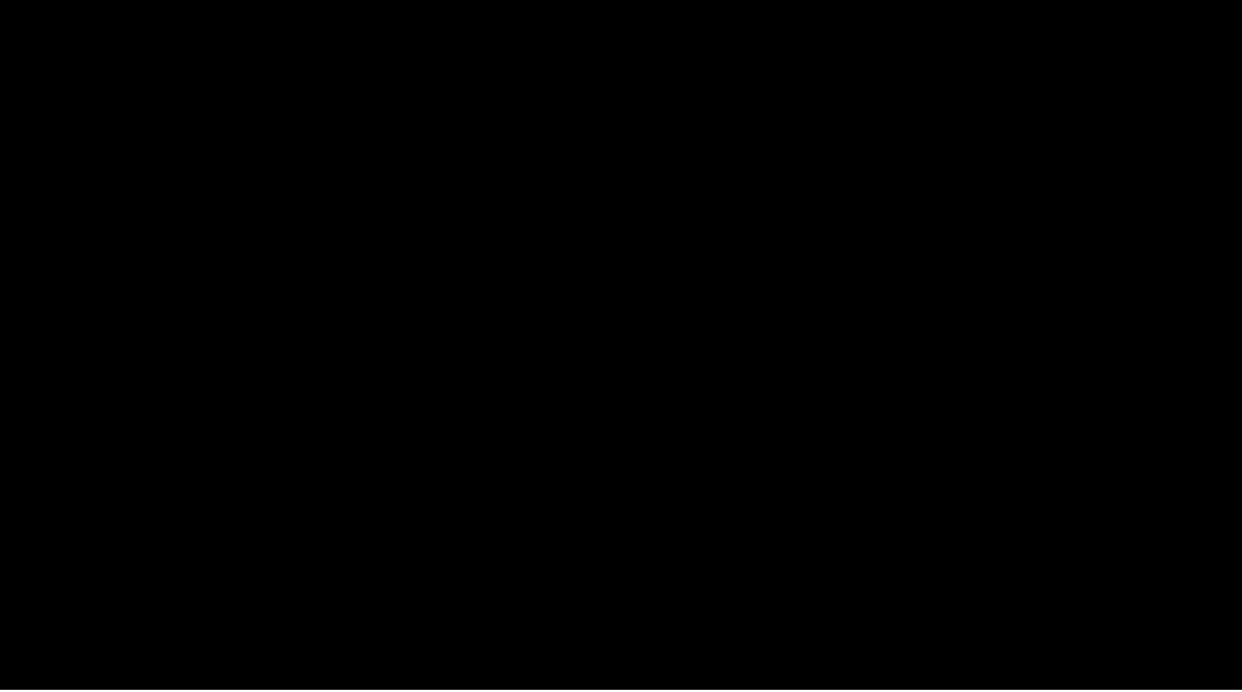
FOOTNOTES

1. Industrial College of the Armed Forces

Other Definitions:

Gordon and Dangerfield in The Hidden Weapon, N.Y. Harner Brothers, 1947: "The use of diplomatic, economic, financial, and sometimes military means to cut the Axis off from the supplies they needed to fight, and to destroy their economic power throughout the world."

Dictionary of Modern Economics, N.Y., Public Affairs Press, 1949: "a process of conflict in which measures are employed to throttle an enemy's trade, destroy his foreign credit, and/or prevent him from acquiring supplies necessary for the prosecution of warfare. Among the measures used in this connection are export restrictions, foreign funds control, blacklisting of nationals of foreign countries, the purchasing of goods to prevent others from getting them, and naval blockades."



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William Y. Elliott. Mobilization Planning and the National Security. Public Affairs Bulletin N. 81, July 1950: "Economic Warfare has many definitions Generally speaking, economic warfare is the use of diplomatic, economic, and financial power in peace or in war directed toward the weakening of enemy resources, and the strengthening of one's own position. it is nonmilitary in character -- except in actual war when blockading and strategic bombing take it into the field of military operations --- but its objectives are the same as the objectives of military

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victories. In time of war, the principal theatre of economic warfare has been the neutral power. In time of peace, its theatre is universal, but particular emphasis is placed on the sources on which the enemy depends, and on the sources from which he would hope to operate his springboards of offense. Examples of economic warfare used by the Allies in World War II were the blockade, export and import controls, preclusive buying, the safe-haven program, and the blacklist technique. Examples of economic warfare currently being used by the Western powers are export control on military items against the Soviet and its Satellites in East-West trade; the economic aid programs; and technical and capital assistance programs. >

2. [REDACTED] 25X1A2g
3. Note of Secretary Lansing to Ambassador Page at London, Oct. 30, 1915.
4. Ritchie, E. The Navicert System During the World War. Washington, D. C. , Carnegie Endowment for International Peace, 1938, p. 7.
5. Report of the War Trade Board, 1917-1919. Wash., D.C. GPO 1920, pp 268-9.
6. [REDACTED] 25X1C8b
7. Ibid. p. 28
8. pp. 36, 39.
9. NSRB Doc. 119 "Conservation Mobilization Planning." (Confidential) July 28, 1949. pp 2, 3.
10. Foreign Economic Administration. "The Procurement of Economic Information for Strategic Purposes." (Secret) An analysis of the experience of the Economic Intelligence Division of the Board of Economic Warfare, Office of Economic Warfare and Foreign Economic Administration 1942-1944. p. 80.
11. Ibid, p. 57
12. "Planning Study on Intelligence for Economic Warfare." Economic Warfare Planning Committee, April 18, 1949. (Secret) p. 41.
25X6A80
[REDACTED]
14. Foreign Economic Administration. op.cit. p. 7
15. Ibid. p. 9
16. NSRB "Interagency Study for Mobilization Planning on Foreign Economic Measures - Export Controls." (Secret) March 31, 1949. p. 10.

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